ALGERIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	45,741	46,940	47,644
Real GDP Growth 3/	4.1	2.1	1.5
GDP by Sector: 2/			
Agriculture	4,971	4,497	5,756
Manufacturing	4,245	4,405	4,765
Construction	4,399	4,616	4,731
Hydrocarbons	13,404	13,717	10,700
Services	10,071	10,771	11,794
Government	8,651	8,922	9,670
Real Per Capita GDP (US$)	1,493	1,596	1,672
Labor Force (millions)	7.81	8.07	8.10
Unemployment Rate (pct)	27.9	28.0	29.5
Fiscal Deficit/GDP (pct)	3.0	2.3	-1.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	14.2	18.5	17.4
Consumer Price Index	18.7	5.73	5.3
Exchange Rate (annual average)			
Official 4/	54.7	57.7	59.5
Parallel 5/	59.6	65.0	70.0
Balance of Payments and Trade:			
Total Exports	13,960	14,640	11,300
Oil/Gas	12,640	13,700	10,600
Exports to U.S. 6/	2,270	2,439	1,656
Total Imports CIF	11,240	10,190	9,800
Imports from U.S. 6/	632	695	713
Trade Balance	2,720	4,450	1,500
Balance with U.S.	1,640	1,744	953
Current Account Deficit/GDP (pct)	2.8	6.45	-0.05
External Public Debt	33,651	31,200	30,800
Debt Service/GDP (pct)	8.9	8.9	11.1
Gold and Foreign Exchange Reserves	6,230	8,040	6,700

Aid from U.S. 7/	165	156	209
Aid from All Sources 8/	420	392	N/A

1/ Embassy estimates based on partial data furnished by Algeria's Central Bank and its National Economic and Social Council.

2/ GDP at current market price.

3/ Percentage changes calculated in local currency.

4/ Bank of Algeria and embassy estimate.

5/ Embassy estimates.

6/ 1998 data, nine months USDOC projected.

7/ In thousands of dollars, IMET and USIA exchanges.

8/ OECD DAC data for 1993, 1994, 1995; net ODA disbursements including from multilateral institutions.

1. General Policy Framework

The Algerian market presents significant commercial opportunities to U.S. exporters and investors. Algeria has major oil and gas reserves for export to the U.S. and European markets, and U.S. technology and expertise are highly prized as a means to exploit these resources. While the hydrocarbon sector is already a large market for U.S. exports, there are other markets for U.S. goods and services in Algeria, including housing, consumer products, water projects, and telecommunications. The government has deregulated the trade sector. In 1998, export earnings and debt payment rescheduling provided the government with foreign exchange to finance imports. According to the International Monetary Fund (IMF), total foreign exchange reserves will likely sink to $6.7 billion by year-end 1998, down from $8 billion at year-end 1997. The Fund further estimates that reserves will fall to $3 billion by year-end 1999. Algeria has a growing population, its infrastructure needs renovation, and there is a critical housing shortage. Many of its industrial firms have equipment that was purchased 20 to 30 years ago. Over the medium and long term, Algeria should be a large, growing market for U.S. exports.

U.S. exports to Algeria rose about 2.4 percent in 1998 relative to the level of the year before. The former level is still about 8.4 percent below that of 1996. The relatively lower level of imports may be attributed to a good 1998 harvest in Algeria. In 1997, U.S. agricultural exports to Algeria reached $315 million, which represented 45 percent of total U.S. exports to Algeria. In 1998, U.S. agricultural exports to Algeria are expected to total more than $270 million. The Algerians did not accept U.S. government credits to finance its purchases. The Algerians have requested a program of credits for 1999.

The 1998 government budget was the first one in four years not subject to the constraints of an IMF structural adjustment program. The government loosened the tight fiscal policy it has been pursuing in conjunction with the IMF-backed program. Spending levels on capital appropriations reflected both the loosening of fiscal discipline and the need to invest in a deteriorated infrastructure. The revised 1998 budget raised capital expenditures as a percentage of GDP from 7.2 percent in 1997 to 9.1 percent in 1998. The net result of lower than expected growth in the economy and increased spending led the government in 1998 to incur a budget deficit for the first time since 1995. The estimated deficit was expected to equal 2.6 percent of GDP. This estimate is based on revenue projections for an average price of oil at $15 per barrel. The recent decline in world oil prices, to nearly $10 per barrel, calls into question all of these budget, export revenue, and debt-service projections.

The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In late 1998, the central bank rediscount rate stood at 9.5 percent and commercial bank lending rates ranged between 10 and 12.5 percent. To finance government deficit spending, the government sells bonds on the primary market to Algerian customers. In 1998, for the first time the central bank opened a secondary market for government debt.

Still, the lack of a vital financial sector restricts growth of the private sector and is an impediment to foreign investment in Algeria. Reform efforts in the state-owned banking sector overall have progressed slowly. In the emerging private banking sector, five private banks began operations in Algeria during 1998, including one U.S.-based bank. The Algerian Government is also backing development of primary and secondary housing mortgage loan markets. State banks also began writing home mortgage loans in 1998, a first for Algeria, following a World Bank-sponsored technical assistance project that was led by the U.S.-based Mortgage Bankers Association.

2. Exchange Rate Policy

A government board implements a managed float system for the dinar, which is convertible for all current account transactions. Private and public importers may buy foreign exchange from five commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which they set the dinar's exchange rate, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. However, since the central bank buys the foreign hydrocarbon export proceeds of the national oil company, SONATRACH, the bank plays the dominant role in the foreign exchange market. The primary objective of its intervention policy is to avoid sharp fluctuations in the exchange rate.

3. Structural Policy

The government has changed major aspects of its regulatory pricing, and tax policies as part of its overall structural adjustment program during the past five years. It has loosened its tight hold on state-owned company purchase, production, and pricing decisions in order to give their managers greater autonomy. During the late spring 1997, the government suspended its program of emergency financing for state-owned firms that had recourse to such funding to cover overdrafts and otherwise pay off outstanding debt. The government also pursued its policy of eliminating subsidies and partially removed those on energy products at the end of 1997. The government privatized or liquidated 1000 state enterprises since 1996. For the first time, two state-owned enterprises issued stock for purchase as part of the ongoing privatization effort. Also in 1998, SONATRACH issued bonds for the first time.

The government ran budget surpluses in 1996 and 1997 because of increased revenues from hydrocarbon exports, which accounted for about 60 percent of fiscal revenues and 95 percent of export earnings during the last two years. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished, and finished products, with the top rate being 45 percent in 1997. The government reformed its tax code in 1998 to encourage business development, cutting rates in several categories as part of the 1999 budget. The new law will reduce corporate tax rates from 38 to 30 percent, decreasing again to 18 percent if profits are re-invested in the company. The law also excludes from taxation profits on stock and bond sales for five years.

4. Debt Management Policies

Algeria continued to improve its external debt situation in 1998, reducing its total external debt from $31.2 billion to $30.8 billion. The government did not, however, choose to renew its program of cooperation with the IMF. Algeria met its IMF-backed extended fund facility obligations throughout 1998. Payment in 1998 of principal and interest on the debt that had been rescheduled totaled $5.21 billion. The amounts for 1999-2001 are $5.81 billion, $5.63 billion, and $5.51 billion, respectively. The share of export earnings spent on debt service payments rose from 33 percent in 1997 to 43 percent in 1998 due to reduced earnings from lower than expected oil prices and scheduled, increased payments to foreign creditors.

In order to meet debt service and support an increase in the real output of goods and services, the government is counting both on hydrocarbon export revenues to recover and on a substantial rise in non-hydrocarbon export revenues between now and the end of this decade. On the former point, in 1998 the Algerian economy remained sensitive to fluctuations in oil prices. The government expects revenue losses in 1998 from lower oil prices to total $3 billion. Algeria's non-hydrocarbon exports dropped from $570 million in 1997 to $390 million in 1998.

The central bank is estimating that the growth of Algeria's Gross Domestic Product (GDP) in volume terms will be about 5.2 percent per annum during the next three years (1999-2001). Based on the assumption of the average price of oil being $15 per barrel, the government assumes that Algeria's balance of payments will be such during this period that its stock of outstanding debt will decline by more than $5.2 billion between 1996 and 2001 (from $34 billion to $28.8 billion). Under these assumptions, outstanding debt as a proportion of GDP will decline from 69.7 percent to 57.5 percent by the end of the period.

5. Significant Barriers to U.S. Exports

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on particular testing, labeling, or certification requirements being met, however. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to also label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming.

The government has deregulated some service sectors, notably insurance and banking. Air couriers are allowed to operate in Algeria subject to approval of the Algerian Ministry of Post and Telecommunications (PTT). DHL offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications services, it permits the local production, importation, and distribution of telecommunications equipment.

There are no absolute barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law govern investments in these two local sectors. Production sharing agreements are routine.

The Algerian Government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard. The government occasionally uses countertrade practices to encourage the sale of goods locally produced.

6. Export Subsidies Policies

About 90 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. Algerian legislation protects intellectual property and its enforcement is adequate. The embassy has received no reports of cases of infringement, counterfeiting, or piracy.

Patents are protected by the law of December 7, 1993 and administered by the Institut Algerien De Normalisation Et De Propriete Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

Trademark protection is afforded by the laws of March 19, 1966 and of July 16, 1976. In 1986, authority for the granting and enforcement of trademark protection was transferred from INAPI to the Centre National Du Registre Du Commerce (CNRC).

Copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs is provided by a 1973 law. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had no adverse affect on U.S. trade. The embassy has received no reports from U.S. firms of losses of export or investment opportunities due to imported or locally produced counterfeit or pirated goods.

8. Worker Rights

a. The Right of Association: Workers may form and be represented by trade unions of their choice. Government approval for the creation of a union is required. Unions may not affiliate with political parties or receive funds from abroad, and the government may suspend a union's activities if it violates the law. Unions may form and join federations or confederations, and they have affiliations with international labor bodies.

b. The Right to Organize and Bargain Collectively: A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. Unions may recruit members at the workplace.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor has not been practiced in Algeria and is incompatible with the constitution.

d. Minimum Age for Employment of Children: The minimum employment age is 16 years and inspectors can enforce the regulation. In practice, many children work part or full time in small private workshops and in informal sector trade.

e. Acceptable Conditions of Work: The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour work week. A guaranteed monthly minimum wage of 6,000 Algerian Dinars ($100) has been set by the government. A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. Worker Rights in Sectors with U.S. Investment: Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do fellow workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,023
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,170

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.